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Insurance Venture Of CIA Produced Awkward Situations

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New Light Shed on Problems, Including Rebuff to Bid for Acquisition, SEC Inquiry

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The Central Intelligence Agency got into the insurance business in 1962. Since then, the insurance business has got the CIA into some awkward predicaments.

The agency's original idea in setting up a complex of insurance companies was to provide a discreet means of paying retirement, disability and death benefits for double agents and other top-secret operatives who couldn't receive regular CIA benefits in the form of U.S. Treasury checks because of possible exposure.

Lawrence R. Houston, who helped create the insurance operation and who directed it until he retired as the agency's general counsel in 1973, said the CIA on several occasions even had to rebuff investors interested in acquiring what appeared to be a healthy insurance operation. Another time, "company" officials had to fend off a Securities and Exchange Commission insider-trading inquiry that touched peripherally on one concern's purchases of a stock. Further complicating matters, these headaches had to be handled publicly by CIA employes who were merely posing as executives and hadn't any independent authority even to sign checks.

These glimpses inside the CIA's insurance complex, which eventually grew to several companies, emerged from an interview with Mr. Houston. While the existence of the $30 million CIA insurance complex was disclosed in an April report by the Senate Intelligence Committee, Mr. Houston shed new light on the problems of managing the agency's conglomerate.

Mr. Houston declined, however, to name specific companies in the CIA insurance complex, which he believes is serving a "perfectly legitimate and absolutely necessary purpose." He expressed concern that publication of such specific information could result in exposure and "serious harm" for individuals who have received payments through the project.

Two Existing "Shell" Companies

The CIA decided to get into the insurance business after finding itself scurrying around in 1961 to hastily arrange payments to the families of four American pilots shot down over Cuba in the Bay of Pigs incident. The insurance complex was established the next year with help from friendly industry executives and lawyers, who apprised the CIA of two existing "shell" companies and offered advice on how to "flesh them out," Mr. Houston recalled.

While the CIA tries to write contracts with its covert operatives that specify regular employe contributions for pensions and insurance benefits, many of the payments by the insurance complex have taken a more irregular form, Mr. Houston said. For example, when an "uninsured" operative retired or died, it was often necessary to backdate elaborate phony benefit policies and fund them with lump sums from the CIA.

But it's clear that the role of the insurance complex hasn't been limited to providing insurance. The Senate Intelligence report, while approving the general intent of the project, noted cryptically: "The complex also provided a limited amount of support to clandestine operations—specifically for the acquisition of operational real estate and as a conduit for the funding of selected covert activities."

Mr. Houston conceded that the insurance company has been used to channel money for covert operations, as a "sterilized funding" device to make the payments difficult to trace. (Most of the covert funding apparently was carried on the books as investment.) But he denied that this was the real reason the complex was created. "If the complex later got into other agency purposes," he said, "it was because it proved itself a useful instrument." He wouldn't elaborate.

Recruited About 50 Businessmen

To help build a cover for the insurance complex of foreign underwriting concerns, based in such places as Bermuda and the Cayman Islands, and domestic investment concerns, the CIA once recruited about 50 businessmen and retired government and military employes as directors for the companies, Mr. Houston said. They were paid $50 to $100 a board meeting, with a maximum of four meetings a year. Aware that they were working for the agency, the directors would sometimes be asked to advise on investment portfolio decisions. But Mr. Houston said he supervised every detail of the operation, including management of the investment portfolios, from CIA headquarters in Langley, Va.

To make the insurance complex believable, it had to show healthy profits. The complex, according to the Senate report, has retained accumulated net earnings of about $9 million since 1962, with its profit from stock sales topping $300,000. In managing the portfolio, Mr. Houston apparently was able to finesse the end of the go-go market. By the early 1970s, he said, "we were mainly out of stocks and into time deposits and Eurobonds."

Mr. Houston said he gathered investment tips from "some witting and some unwitting" consultants and friends and agency contacts. All stock purchases were made through regular brokerage firms and, to avoid potential conflicts of interest, he didn't invest in any companies with which the CIA had contractual relationships.

But profits on the stock dealings and other transactions haven't been used as a slush fund to supplement money appropriated for CIA activities by Congress, the lawyer maintained. Money beyond that needed to support the underwriting costs is returned to the U.S. Treasury through various arcane procedures, he said.

To preserve the cover for the insurance complex, the CIA sought to operate the companies as normally as possible. This meant, among other things, "laying off" some of its policies to regular commercial insurance concerns in so-called reinsurance transactions. Mr. Houston, however, would quietly notify the chief executives of these companies that they were actually buying spook insurance. The CIA companies also reinsured policies from the commercial concerns, again to maintain appearance of normality.

Sometimes, however, the profit-making, business-as-usual cover proved to be an embarrassingly successful decoy. On several occasions, investors approached CIA employes who nominally headed companies in the insurance complex and suggested that the units looked like good acquisition possibilities. "We simply never let it come to the point of negotiation," Mr. Houston observed.

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